

DOCKET FILE COPY ORIGINAL

BEFORE THE  
Federal Communications Commission  
WASHINGTON, D.C.

RECEIVED

JUL - 7 1995

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

In the Matter of )

Implementation of Section 309(j)  
of the Communications Act -  
Competitive Bidding )

PP Docket No. 93-253

Amendment of the Commission's  
Cellular PCS Cross-Ownership Rule )

GN Docket No. 90-314

Implementation of Sections 3(n) and 332  
of the Communications Act  
Regulatory Treatment of Mobile Services )

GN Docket No. 93-252

COMMENTS OF COMTECH, INC.

Comtech, Inc., by its attorney, and pursuant to the Commission's Further Notice of Proposed Rule Making ("Further Notice") in this Docket, FCC 95-263 (rel. June 23, 1995), hereby submits its responsive comments. Comtech supports the proposals contained in the Further Notice.

The Further Notice proposes to significantly increase the preferences afforded to small businesses, i.e., those companies which have average gross revenues of no more than \$40 million for the preceding three years. As a practical matter, the Commission's proposal would dramatically change the dynamics of the C-block allocation process. In these comments, Comtech respectfully requests that the Commission provide further opportunities for smaller entrepreneur businesses, i.e., those businesses with gross revenues ranging from \$40 - \$75 million.

No. of Copies rec'd  
List ABCDE

014

Specifically, Comtech proposes that the Commission afford smaller entrepreneurs the following:

- a 25 percent bidding credit and the most favorable installment payment terms (i.e., 6 years interest-only at the rate of 10 year U.S. Treasury obligations); or
- a 15 percent bidding credit and a favorable installment payment plan (i.e., 5 years interest-only at the 10 year T-bill rate.)

By such limited action, the Commission will vastly increase the ability of smaller entrepreneurs to attract the financing necessary to participate meaningfully in the C-block auction without disadvantaging any one particular class of qualified bidders or the Commission's proposed alterations of the bidding preferences.

#### **I. BACKGROUND**

Comtech, Inc. is a closely held Illinois corporation and the largest reseller of cellular service in the state of California, providing service to over 45,000 cellular subscribers in most of California's major urban markets, having commenced operations in 1985. Comtech has 118 employees of which 55 percent are women and 39.8 percent are minorities. As the Commission is aware, the cellular resale business is characterized by low margins due principally to the cost of wholesale cellular service.<sup>1</sup>

Comtech has succeeded in providing value-added cellular service to its customers in large urban areas and, as a result,

---

<sup>1</sup> For example, approximately 74% of Comtech's resale revenues are repaid to the underlying cellular carriers for wholesale cellular service.

wishes to bid in the largest BTAs in the C-block auction. However, Comtech's 1991, 1992 and 1993 gross revenues were \$47.4 million, \$49.5 million and \$54.9 million.<sup>2</sup> Thus, though Comtech qualifies for the entrepreneur's block auction, it is ineligible to receive any bidding credits or the most favorable installment payment plan open to small businesses as proposed by the Further Notice.<sup>3</sup>

**II. ABSENT MINOR ADJUSTMENTS TO THE NOTICES'S PROPOSAL, SMALLER ENTREPRENEUR BUSINESSES WILL BE DENIED SIGNIFICANT OPPORTUNITIES TO PARTICIPATE IN THE C-BLOCK AUCTION.**

In light of the Supreme Court's decision in Adarand Constructors, Inc. v. Pena, 63 U.S.L.W. 4523 (U.S. June 12, 1995), and the Commission's responsive proposal to eliminate all race- and gender-based provisions for the C-block auction, the classification as a small business now becomes crucial to determine a bidder's ultimate success. By removing these preferences (albeit, as required by Adarand), the Commission necessarily decreases the pool of prospective bidders, alters the relative strengths of remaining bidders, and, in turn, elevates

---

<sup>2</sup> From 1990-1994, Comtech was also involved in the paging business, holding RCC and PCP licenses from this Commission which were sold to Paging Network, Inc. in 1994. Paging revenues from 1991-1993 respectively were \$.79 million, \$3.7 million and \$8.4 million. Subtracting these paging revenues, indicates that Comtech's cellular resale revenues have not exceeded \$46.6 million over the noted three year period.

<sup>3</sup> Comtech qualifies for one of the least favorable installment payment plans of interest equal to the 10 year U.S. Treasury rate plus 2.5 percent, payable interest only the first year with principal and interest amortized over the remaining nine years of the license term. Further Notice at ¶ 22.

the small business classification to the detriment of smaller entrepreneurs.

Unfortunately, the lack of bidding credits and more favorable installment payment terms afforded small businesses vastly diminishes or even precludes any rational economic bidding attempt by Comtech and other smaller entrepreneurs in the large BTAs. Comtech has been advised by its investment bankers, Vine Street Partners, Inc. ("Vine Street"), that it is highly unlikely that it can attract the necessary investment capital with projected returns attractive to such investors, absent modification of the auction rules proposed in the Further Notice.

Attached hereto is Vine Street's Report which indicates that Comtech or any company of similar size (\$40 - \$75 million revenue) and situation will have great difficulty attracting investment capital from sophisticated institutional investors unless the anticipated return to such investors is at least 35 percent. As the Vine Street Report indicates, it has extensively analyzed major markets for Comtech and has provided a Matrix (attached to the Vine Street Report and replicated below), noting four scenarios for bidding on such a representative major market covering over five million pops.

### VINE STREET MATRIX

Scenario	Bidding Credit	Years of Interest Only Payments	Interest Rate	Cash Equity Investment Over 6	Anticipated Investor Return (IRR)
I	25%	6	T+0 basis pts.	\$25 - \$30MM	30% - 40%
II	15%	5	T+100	\$30 - \$35MM	25% - 35%
III	0%	6	T+0	\$35 - \$40MM	20% - 30%
IV	0%	1	T+250	\$70 - \$75MM	0% - 10%

Note: Figure based on winning a major market covering five million pops. All scenarios have the same assumptions except where indicated. IRR is calculated assuming a recapitalization in year six.

### **III. AS A SUPPLEMENT TO THE PROPOSALS CONTAINED IN THE NOTICE, THE COMMISSION IS WARRANTED IN ADOPTING PREFERENCES FAVORING SMALLER ENTREPRENEURS.**

As the Vine Street Matrix indicates, it is highly unlikely that Comtech or any other similarly situated entity can succeed in bidding for a major market, construct and operate in an economical fashion to attract risk capital, absent the provision of:

(I) the maximum bidding credit of 25 percent and the most favorable installment payment terms (6 years interest only at the rate of 10 year U.S. Treasury obligations) or, alternatively;

(II) at least a 15 percent bidding credit and a favorable installment payment plan (5 years, interest only at the 10 year T-bill rate).

In bidding for such a major market, Vine Street's estimate is that Comtech must raise \$25 - \$75 million in cash equity over six years which Vine Street advises is not commercially viable, unless either of the noted scenarios are adopted by the

Commission. In addition, Vine Street further advises that debt financing of \$25 - \$50 million over 6 years will need to be raised to cover system construction and operation.<sup>4</sup>

Conversely, absent adoption of those alternative scenarios, any company such as Comtech in the \$40 - \$75 million category is effectively shut-out from attracting risk capital necessary to successfully bid in the C block auction.

**IV. COMTECH'S PROPOSAL IS ENTIRELY CONSISTENT WITH THE RECOMMENDATIONS OF THE U.S. SMALL BUSINESS ADMINISTRATION.**

Vine Street's opinions are not merely predictive of its own views. They are borne out by the comments filed in this docket by the U.S. Small Business Administration's ("SBA") Office of Advocacy. There, the SBA Office of Advocacy stated that a firm with \$40 million or less in revenues could only meet demands of small and some medium size markets without "significant outside financial assistance." Comments of the Chief Counsel for Advocacy of the U.S. Small Business Administration in PP Docket 93-253, at 10 (filed November 10, 1993). Notably, the SBA commented that larger markets, comparing New York for example with El Paso, TX, raises the necessity of establishing a differing and higher size standard given the higher costs to construct and operate in such larger markets.<sup>5</sup> See also Fifth

---

<sup>4</sup> Of course, successfully bidding for more than one large BTA will significantly increase both equity investment and debt financing for each additional BTA.

<sup>5</sup> Id. at 11. As SBA pointed out, the cost of construction for large urban areas has been estimated at \$250 million vis a vis \$8 - \$20 million in smaller markets, if a  
(continued...)

Report and Order in PP Docket 93-253, 9 FCC Rcd. 5532, 5607

(1994), "the SBA's Chief of Advocacy suggests that the Commission consider a higher revenue ceiling or adopt different size standards for different telecommunications markets."

**V. COMTECH'S PROPOSAL, IF ADOPTED, WILL NOT REQUIRE WHOLESALE REVISION OF THE COMMISSION'S PROPOSED DESIGNATED ENTITY ELIGIBILITY RULES.**

Comtech does not seek wholesale revision of the Commission's rules. Rather, it seeks only an intermediate category that allows companies which are on the cusp of the \$40 million revenue definition, to effectively bid in the larger markets and in Comtech's case, the very sized markets in which it has a track record of success. Creating such an intermediate category for smaller entrepreneurs with revenues in the \$40 - \$75 million range requires little alteration of the proposed rules. It will, in fact, comport with Section 309(j)(4)(C) and (D) of the Communications Act, because it enables the Commission to recognize the size constraints of its bidding and installment payment plans for larger markets, utilizing those methods to ensure an economic opportunity for a wide variety of applicants inclusive of small businesses, rural telephone companies, minorities and women.

Adopting Comtech's proposal is consistent with the Commission's practical approach in this proceeding that its rules be structured to maximize fair and meaningful opportunities for

---

<sup>5</sup>(...continued)  
system is designed to mirror current cellular coverage and service. Id. at 11, note 17.

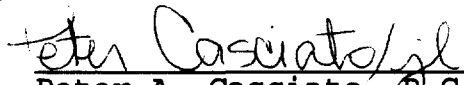
all qualifying entities to bid on the allotted spectrum. Indeed, absent adoption of Comtech's proposal, the Commission will have essentially reduced the "entrepreneur's block" to a "small business block," in which small businesses are favored to the general exclusion of other entrepreneurs. In that regard, Comtech's proposal seeks only to recast the existing categories, leaving the equity structure undisturbed, yet providing assistance to smaller entrepreneurs as necessary. Such a proposal will significantly increase the number of participants capable of bidding successfully for a PCS license without disadvantaging any one particular class of qualified bidders.



## VI. CONCLUSION

For these reasons, Comtech respectfully requests that the Commission adopt its proposal as outlined herein. By such limited action, the Commission will create opportunities for smaller entrepreneur businesses to attract the financing necessary to participate meaningfully in the C-block auction, and not at the expense of small businesses.

Respectfully submitted,

  
\_\_\_\_\_  
Peter A. Casciato, P.C.  
8 California Street, Suite 701  
San Francisco, CA 94111  
(415) 291-8661

Attorney for Comtech, Inc.

July 7, 1995



(708) 789-6464  
FAX (708) 789-6477

## **REPORT ON FEASIBILITY OF FINANCING C BLOCK PCS**

Vine Street Partners, Inc. ("VSP") has been retained as financial advisor and placement agent for Comtech, Inc. since December, 1994 in connection with the placement of financing to support the expansion of Comtech in Personal Communication Services ("PCS"). Vine Street Partners, Inc. is a member of the National Association of Securities Dealers and is a registered Broker/Dealer. More detail on VSP's background is attached.

Since the start of our engagement, VSP has been working with management of Comtech to analyze various markets, prepare a business plan and supporting analysis. VSP has had many discussions and meetings, including contacts with over 30 equity sources regarding this engagement. On the basis of this experience and of estimates and projections supplied by Comtech, VSP prepared the summary Matrix shown below. It shows the results of four detailed models to determine the feasibility of, and to assist in, raising financing.

Sophisticated institutional investors require an internal rate of return on investment of at least 35% for an investment of this nature. This return cannot be reached unless bidding credits and installment payment terms are changed to Scenarios I or II of the Matrix shown below. In addition, based on the

business plan, VSP advises that debt financing of \$25-\$50 million over six years will need to be raised to cover system construction and operation.

#### VINE STREET MATRIX

Scenario	Bidding Credit	Years of Interest Only Payments	Interest Rate	Cash Equity Investment Over 6	Anticipated Investor Return (IRR)
I	25%	6	T+0 basis pts.	\$25 - \$30MM	30% - 40%
II	15%	5	T+100	\$30 - \$35MM	25% - 35%
III	0%	6	T+0	\$35 - \$40MM	20% - 30%
IV	0%	1	T+250	\$70 - \$75MM	0% - 10%

Note: Figure based on winning a major market covering five million pops. All scenarios have the same assumptions except where indicated. IRR is calculated assuming a recapitalization in year six.

Based on the experience of the employees at VSP in raising equity financing; the extensive analysis related to this engagement; and market feedback from potential equity investors; it is VSP's opinion that it is highly unlikely that the necessary investment capital can be raised for Comtech, Inc. or any other company of similar size and situation to Comtech, Inc. absent modification of the auction rules.

July 7, 1995



(708) 789-6464  
FAX (708) 789-6477

## **VSP PEOPLE AND PRODUCTS**

### **A. Core Services**

The main services VSP offers its clients include corporate M&A Advisory, and Equity, Mezzanine and Senior Debt Placement. VSP is a member of the National Association of Securities Dealers and is a registered Broker/Dealer.

A more detailed listing is as follows:

#### **1. Corporate M&A Advisory**

- \* Buyer Representation
  - Assisting the client in developing acquisition criteria
  - Searching for/screening potential acquisition targets
  - Evaluating target companies
  - Negotiating and structuring the transaction
  - Capital sourcing
- \* Management Buyouts/Recapitalizations
  - Evaluating the target company
  - Assisting in structuring the purchase
  - Negotiating and structuring the financing
  - Developing the optimal capital structure
  - Negotiating the transaction
  - Preparing the information memorandum
- \* Exclusive Sales (majority or minority)
  - Valuing the business
  - Preparing a descriptive memorandum
  - Identifying target acquirers/partners
  - Negotiating and structuring the transaction

## **2. Equity and Debt Placement**

- \* Common and Preferred minority interests
- \* Subordinated Debt
- \* Senior Bank Debt

## **B. Experience**

VSP was formed in June, 1991, and brings to its clients a dedicated team of professionals with both domestic and international corporate finance experience. This background has allowed VSP to develop a broad-based network of contacts which will maximize each project's probability of success. We can add value in many ways including the following:

- \* Advanced financial analysis and business valuation techniques
- \* Direct access to domestic and international buyers of companies in an array of industries as well as an extensive network of M&A intermediaries
- \* Access to state-of-the-art information systems through Bankers Trust Company (VSP contracts this service)
- \* First hand understanding of the requirements of equity investors, and subordinated and senior debt providers
- \* Direct access to domestic and international equity and debt sources

## **C. Background Summaries**

**Patrick J. Martin** formed Vine Street Partners in June, 1991 after spending a year conducting research, developing a seminar on understanding corporate value, and valuing corporations. Prior to this time, Mr. Martin spent 17 years at Bankers Trust Company, where he reached the level of Managing Director and "Partner." His positions at Bankers Trust ranged from heading up its European Merchant Bank out of London to running the Credit Training Program of its former Metropolitan Banking Department. Other assignments included Head of the Midwest Region stationed in Chicago; Division Head responsible for the Bank's large corporate business in Los Angeles; and previous tours both in Chicago and New York as a relationship manager. His duties and responsibilities as a player/coach included acting as a principal on behalf of the Bank for senior and subordinated debt as well as private equity. In addition, he had management responsibility for a 22-person M&A team covering all of Europe, including a very active practice in the United Kingdom.

Mr. Martin received a Bachelor of Science in Economics from Northern Illinois University and attended Northern Illinois University's Graduate School majoring in Economics.

**Alfred M. Mattaliano** has more than 14 years of experience in numerous corporate finance transactions, including financial advisory, leveraged buyouts, recapitalizations, general purpose loans, private placements, foreign exchange and interest rate hedging. Prior to forming Vine Street Partners, Mr. Mattaliano was a Vice President in the Corporate Finance Department at Bankers Trust Company in Chicago. He worked for four years at Bankers Trust, and specialized in the origination and execution of various types of financial advisory, structured finance, and capital markets transactions. He previously was a Second Vice President at American National Bank and Trust Company, where he developed and managed middle market, commercial banking relationships. Mr. Mattaliano was with American National for nearly five years, after working at Associates Commercial Corporation.

Mr. Mattaliano received a Bachelors of Business Administration in Finance from the University of Notre Dame and a Masters of Management in Finance and Accounting from Northwestern University.

**Thomas S. Karlson** has more than 11 years experience in both corporate finance and the securities industry. His background includes corporate advisory, subordinated debt and equity placement, leveraged financing, restructurings/recapitalizations, and investment advisory/estate planning. Prior to forming Vine Street Partners, Mr. Karlson worked as an Associate in the Corporate Finance Department at Bankers Trust Company, where he was actively involved in all areas of merchant banking, including transaction valuation, financial advisory, and debt and equity placement. Before working at Bankers Trust, Mr. Karlson was with Merrill Lynch, Pierce, Fenner and Smith in Chicago. During his four years with Merrill Lynch, Mr. Karlson worked with numerous entrepreneurs providing both business and personal investment advice.

Mr. Karlson received a Bachelors of Science in Economics from the University of Wisconsin, Madison and a Masters of Business Administration in Finance from the University of Chicago.

**Jeffrey S. Powell** has 14 years experience in investment banking including merger advisory, divestitures, acquisition defense, leveraged buyouts, recapitalizations and public and private equity and debt financing. From 1991 to 1995 Mr. Powell was a Senior Vice President at Kemper Securities responsible for originating and executing capital market transactions and mergers and acquisitions. Prior to 1991, Mr. Powell was with Lehman Brothers where he started his investment banking career in 1981.

Mr. Powell received a Bachelors of Arts Degree from Boston University.

***Patrick W. Hartman*** joined Vine Street Partners in March of 1994. He has six years of experience in numerous corporate finance transactions, including leveraged buyouts, recapitalizations, and private placements. Prior to joining Vine Street Partners, Mr. Hartman was an Associate Manager at the Prudential Capital Group in Chicago. He worked six years at Prudential Capital and specialized in the analysis, documentation and monitoring of various types of leveraged buyouts and private placements.

Mr. Hartman received a Bachelors of Business Administration in Finance from the University of Notre Dame and a Masters of Business Administration in Finance and Accounting from the University of Chicago.

***Michael M. Caponetto*** joined Vine Street Partners in June of 1992. He is actively involved in all areas of the business, including transactions valuation, corporate M&A advisory, and debt and equity placement. Prior to joining Vine Street Partners, Mr. Caponetto received a Bachelors of Arts in Economics from the University of Redlands.

***John D. Kobza*** started with Vine Street Partners in May of 1994. He has three years experience in corporate finance and Department of Defense research. Prior to joining Vine Street Partners, Mr. Kobza held a variety of positions with the Prudential Investment Corporation. While with Prudential, Mr. Kobza was selected for and successfully completed the PACE investment training program and associated rotations in various Prudential investment units. Mr. Kobza received a Bachelors of Science in Aeronautical and Astronautical Engineering from Purdue University.

**VINE STREET TRANSACTION SUMMARY**  
**As of 7/6/95**

Prior to forming Vine Street Partners, Inc. ("VSP"), the three partners had extensive experience at Bankers Trust Company, working on various types of mergers and acquisitions, capital sourcing, capital markets and financial advisory assignments. Jeff Powell, Managing Director, had 14 years of investment banking experience at Lehman Brothers and Kemper Securities, prior to joining VSP in 1995.

Since June, 1991, VSP activities have included various financial advisory assignments. A transaction summary is as follows:

Types of financial advisory assignments:	Buyers Representation, Management Buyouts, Exclusive Sales and Equity and Debt Placements
--	--

Transactions closed:	16 transactions totaling approximately \$211 million for 14 clients
----------------------	--

Pending transactions:	Four transaction totaling approximately \$172.5 million for four clients
-----------------------	---

Note: Pending transactions include those in which a Letter of Intent has been signed and/or a closing scheduled.